TESTIMONY OF MARION E. BATSON

FOR

DUKE POWER

PSCSC DOCKET NO. 2003-003-E

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH DUKE POWER.

A. My name is Marion Elliott Batson and my business address is 526 South Church Street, Charlotte, North Carolina. I am Manager, Fossil Fuel Purchasing and Transportation of Duke Power, a division of Duke Energy Corporation.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I am a 1985 graduate of the University of South Carolina with a Bachelor of Science in Business Administration. I have been employed with Duke Power since 1986 and have worked in the Fossil Fuel Procurement area since 1990. I am a member of the North Carolina Coal Institute.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to furnish information relating to our fossil fuel purchasing practices and costs for the period April, 2002 through March, 2003 and describe any changes forthcoming in the projected period.

Q. YOUR TESTIMONY INCLUDES 2 EXHIBITS. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes. Each of these exhibits was prepared at my direction and/or under my supervision.

Q. CAN YOU PROVIDE A SUMMARY OF DUKE'S FOSSIL FUEL PROCUREMENT PRACTICES?

A. Yes. The Company continues to follow the same procurement practices discussed in previous testimony, and a summary of those practices is as follows:

1. Estimating Fuel Requirements. Fuel requirements are estimated monthly and annually based on data input from several functions, including load forecasting, and reflect system planning considerations, as well as nuclear and fossil capacity factors.

2. Establish Inventory Requirements. Monthly and annual fuel inventory requirements for each station and the system are determined after considering the Company's purchasing and production requirements.

3. Monitoring On-going Fuel Requirements. On a monthly and annual basis, reviews are made of existing contracts and projected consumption to determine the need for additional spot or contract supplies.

4. Develop Qualified Supplier Lists. A list of qualified suppliers is maintained along with detailed historical records of their performance and capabilities as to quantity, quality, loading capabilities, etc. Invitations to bid are distributed to all qualified suppliers to cover additional or future contract needs.

5. Bid Evaluation. Contracts are awarded after a complete evaluation cycle including, if necessary, an on-site visit to the source to determine the capabilities of the suppliers.

6. Spot Purchases. To supplement our fuel supply, short term spot market offers are received on a monthly basis and purchases are made in accordance to needs.

7. Expediting of Purchases. All orders are expedited (monitored) closely as to performance against schedule quantity, quality, and proper bills of lading, etc.

8. On-going Quality Control. The Company samples and analyzes all coal received at each station. These analyses are monitored closely against contract specifications and serve as the basis for final price determinations. All coal is weighed at each station to verify freight charges assessed by the railroads.

Q. WHAT IS SHOWN ON BATSON EXHIBIT 1?

A. Batson Exhibit 1 is a statistical summary for each fossil fuel category for the period April, 2002 through March, 2003. The Exhibit includes the quantities consumed, quantities purchased, and the 12-month weighted average purchase price for each fuel. Due to the different components which make up the total cost of coal, coal statistics are further broken down to show the average freight on board (f.o.b.) mine cost, the transportation cost, and the delivered cost per million British Thermal Units (BTUs).

The delivered cost per ton of coal increased from $40.11 to $40.47 in the current period. The increase was due to higher freight costs for the period offset by lower mine costs. The Company received a $10.6 million payment of an arbitration award from a major coal supplier resulting from arbitration of a contract dispute. The payment was credited to coal inventory in February 2003.

Oil prices increased $0.19 per gallon when compared to the previous 12-month period. The average gas price increased 17% to $5.52/million cubic feet (mcf) for the twelve month period ended March 2003.

Q. WHAT IS SHOWN ON BATSON EXHIBIT 2?

A. This exhibit shows inventories for coal and oil at the beginning and end of this reporting period.

Coal inventories decreased from 3,561,273 tons as of March, 2002 to 1,921,999 tons as of March, 2003. Actual coal burned was 1,250,000 tons less than projected for September, 2001 through March, 2002 which resulted in a higher than anticipated inventory as of April, 2002. Inventories have returned to normal amounts as of March, 2003. Duke expects to maintain appropriate inventory to support summer and subsequent consumption.

Oil inventories have not changed significantly from the previous period as purchases have generally equaled consumption.

Q. WHAT CHANGES DO YOU SEE IN THE COMPANY'S FOSSIL FUEL COSTS DURING THE FORECAST PERIOD?

A. The Company's 2002 average cost for coal was significantly impacted by favorable coal contracts agreed to in previous years. Many of these contracts will be expiring in 2003, requiring Duke to replace these tons in today's market conditions. These contract purchases will be competitively bid in accordance with Duke's fuel purchasing practices described earlier. Current market prices indicate contract mine prices of $31 - $32 per ton. Coal mining cost of production has increased significantly in the last few years due to more stringent environmental regulations, tighter truck-hauling restrictions, higher petroleum costs, mining more difficult coal reserves and higher labor costs due to a shrinking work force. These factors, as well as more supply discipline on behalf of the coal vendors due to tighter financial considerations, have led to an increase in the market price of coal compared to a few years ago. As such, the Company's cost of contract coal which represents a large percentage of total coal purchases will be increasing in 2003.

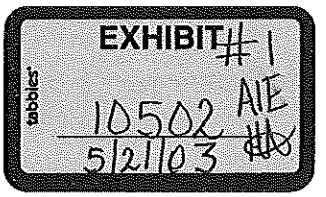
The Company does not expect any significant changes in transportation costs in 2003 until the outcome of the Surface Transportation Board (STB) rate cases described below.

Q. PLEASE DISCUSS COAL TRANSPORTATION COSTS FOR THE PERIOD.

A. Coal transportation or freight costs for the calendar year 2002 were $226 million, or $15.22 per ton compared to $191 million, or $10.49 per ton in 2001. Duke's freight contracts for all plants except Marshall Steam Station for deliveries on both the Norfolk Southern Railway Company (NS) and CSX Transportation (CSX) expired December 31, 2001. Since January 2002, as a result of the on-going litigation filed with the STB concerning freight costs related to the NS and CSX, the Company has been required to pay tariff rates for all deliveries except those to Marshall Steam Station. Duke seeks a ruling from the STB mitigating proposed increases in NS and CSX rates. Duke expects rulings from the STB in the timeframe of late 2003 to mid 2004. The outcome of the proceedings is uncertain at this time.

Q. MR. BATSON, DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.



BATSON EXHIBIT 1

FUEL PURCHASES AND CONSUMPTION
APRIL, 2002 - MARCH, 2003

COAL		
	Tons Burned	17,477,727
	Tons Purchased	15,702,261
	Avg. Mine Price/Ton	$25.08
	Avg. Freight Price/Ton	$15.40
	Avg. Delivered Price/Ton	$40.47
	Avg. Delivered Price/MBTU	$1.6450
OIL		
	Gallons Consumed	16,861,094
	Gallons Purchased	16,197,902
	Avg. Price/Gallon Purchased	$0.9045
NATURAL GAS		
	Mcf. Purchased	806,947
	Avg. Price/Mcf.	$5.52

BATSON EXHIBIT 2

FUEL INVENTORIES

	03/31/02	03/31/03
COAL (TONS)	3,561,273	1,921,999
#2 OIL (GALLONS)	14,972,208	14,309,528